

Rebalancing consumer portfolios for a post-COVID-19 world

2020 Global Corporate Divestment Study
ey.com/divest/consumer

Even before the pandemic, global consumer demand was already evolving rapidly with many of the assumptions that had defined consumer products and retail industries becoming increasingly irrelevant.

We anticipated that the next wave of disruption was going to be exponential, so in order to help clients identify the future consumer they were designing for, EY undertook the *Future Consumer Now* global program in 2018. This program identified 150 drivers of change shaping the future consumer, 8 hypotheses on key aspects of the future consumer, 15 potential future worlds and 5 business imperatives. The driving forces identified have accelerated more quickly than anyone imagined as a result of the COVID-19 pandemic.

There are strong indications around how consumer demand is changing. According to the EY *Future Consumer Index*, 32% of the 14,074 consumers globally who participated in the associated survey said they expect to change what they buy as a result of the COVID-19 outbreak. Additionally, 43% of consumers said they would change the way they shop and about 41% said that they would shop more online for products that they previously bought in stores.

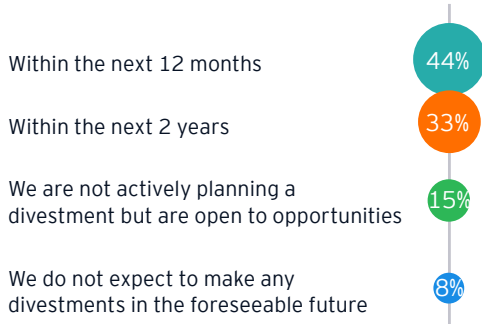
To what extent these changes are required varies across consumer segments. But there are some striking trends. More than half (51%) of consumers, for instance, see healthy or good for me categories as more important purchase criteria than before the crisis, while 41% see luxury as less important.

In response, consumer-facing companies globally now urgently need to anticipate what kind of consumer is emerging, so they can make it through the current crisis and build the capabilities that future relevance will require.

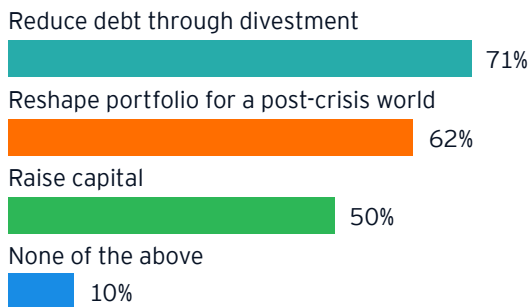
Given these and other potentially profound demand shifts, many companies across consumer segments will not only need to completely reimagine their customer strategy but also reshape and rebalance their portfolios in a recalibrated divestment strategy.

This should mainly involve cutting out complexity, optimizing the portfolio away from non-core categories, channels and geographies and drive the necessary cost efficiencies to tackle the COVID-19-induced recession. At the same time, consumer-facing companies should also use the crisis as an opportunity to focus on growth opportunities and margin efficiency.

Q When do you expect to initiate your next divestment?



Q Does the potential impact of COVID-19 pandemic on your business mean you will need to (select all that apply):



The impact of the COVID-19 pandemic on divestment activity

Amid a rapidly changing marketplace, divestments were already of high strategic importance across the consumer industry: some 75% of consumer companies surveyed earlier this year (pre-crisis) as part of the EY 2020 *Global Corporate Divestment Study* said they planned to divest within the next two years.

Notably, through a resurvey in April, after the COVID-19 crisis had become a full-blown pandemic, this intent to divest moved higher (77%), with 44% of companies planning to divest within the next 12 months.

Supporting this is the need of many companies to build financial resilience by raising capital and reducing debt through divestments. But thinking about and planning for what's next and beyond the crisis is just as important as addressing immediate challenges.

Corporate leaders recognize this: 62% said they are actively seeking to reshape their portfolio for a post-COVID-19 world.

Precisely how consumer companies accomplish this reshaping, and identifying assets likely for divestment, will vary from one company to the next. The process is made even more difficult by the economic outlook: close to half (48%) said the economic slowdown has created less certainty regarding which assets to divest.

A clearer picture for some companies is, however, beginning to emerge as a result of shifting demand. For instance, the EY *Future Consumer Index* survey indicates that consumers are likely to focus more on domestic or locally sourced products, and that many lifestyle changes will accelerate, including their health management and eating habits.

In fact, 29% of consumers surveyed said they plan on changing the way they eat in the next one to two years; and 67% of those plan to cook more at home.

Given this, a recessionary mindset is likely to drive the portfolio toward efficiency and price, but companies will need to also assess emerging growth opportunities.

Divesting to drive investment in core businesses and digital enhancements

Growth comes from investment and consumer companies are focused on pursuing opportunities funded in part through divestments. Indeed, most (64%) consumer companies surveyed said they would use the funds raised from disposals to invest in the core business, with about a third stating that they would use the proceeds to fund an acquisition.

Investment in the core business needs to be focused on progressing the operational transformation many consumer groups were undertaking before the COVID-19 pandemic emerged. In fact, now, more than at any other time, consumer leaders need to examine their efforts to transform their companies through a new lens and a different set of value drivers, including:

- ▶ Putting both consumers and their own workforce at the center of their purpose, strategy and everyday business operations because catering to both the workforce experience and consumer demands will be key to succeeding in the marketplace
- ▶ Innovating at scale through ecosystems of partnerships and alliances that put their organizations at the forefront of disruption
- ▶ Acquiring and deploying technology and the talent needed to support it at the speed at which people expect it, the organization and its employees need it and today's reality demands it

Technology deployment is particularly important because this crisis has highlighted that many organizations were underestimating the speed of technology change and underinvesting in the technologies and tools that will enable them to operate and thrive in a digital world.

In some cases, this may be an efficiency play. But for most, it is likely to be transformational, with groups working with their channel partners to enhance their digital strategy and prioritize retail engagement.

In recognition of this, 42% of consumer companies surveyed in April said they are now more likely to divest assets to fund new technology investments – up from 28% that said the same in our pre-crisis survey earlier this year.

Pursuing value through preparation and planning

With execution and active marketing of assets still mostly on hold, the focus has turned to reviewing portfolios and, according to 46% of consumer companies, increasing their level of divestment preparation.

Dedicating adequate time and resources to this process is important. Unfortunately, it is often overlooked: just over half (54%) admit they significantly underestimate the internal resources and time needed to prepare an asset for sale.

What's more, 55% agree that they should have invested more time and resources into creating pre-sale value on their most recent divestment. Value creation strategies vary but the top two areas where consumer groups are placing greater focus before putting the business up for sale are: the quality of the management team in the business to be divested (52%) and reorganizing the supply chain (44%).

Management teams are, no doubt, being tested as never before by the current crisis. As such, potential buyers will be very focused on how well they have performed during the disruption and how well-equipped they are to navigate what is to come.

In addition, many buyers will be understandably skeptical about the motivations of sellers, so it is essential for the sale narrative to be built on tangible, compelling evidence. Sellers will, therefore, need to present up-to-date research and robust data that can inform models which show potential buyers what could happen financially in the next 12 to 24 months in a variety of scenarios.

The same is true in demonstrating supply chain risk mitigation. Global supply chain disruption has been severe across industries and consumer segments, particularly in segments with long supply chains and long lead times such as the apparel and consumer electronics. Therefore, sellers will need to be able to demonstrate to potential buyers how a divested business can continue to operate if there are future border shutdowns as well as the cost implications of creating alternative supply chains, including reshoring operations.

Investing time and resources in these two areas, among others, should strengthen sellers' negotiating positions in a market that is now more skewed toward the buyer. In fact, according to 58% of consumer companies surveyed in April, the price gap between sellers and buyers has likely increased during the crisis.

About this study

The EY *Global Corporate Divestment Study* is an annual survey of C-level executives from large companies around the world, conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company.

Results are based on an online survey of 1,010 global corporate executives and 25 global activist investors pre-COVID (conducted between November 2019 and January 2020), and an online survey of 300 corporate executives and 25 global activist investors following the onset of the crisis (conducted between April and May 2020), including companies from 11 industries, with 75% of respondents holding the title of CEO, CFO or other C-level executive.

Consumer highlights are based on interviews with 192 consumer executives pre-COVID and 52 consumer respondents in the resurvey.

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